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Message Text

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H-01 INR-05 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03

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R 121210Z DEC 74
FM AMEMBASSY ALGIERS
TO SECSTATE WASHDC 1552
INFO AMEMBASSY BONN
AMEMBASSY PARIS

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PASS EXIM

E.O. 11652: N/A
TAGS: ENRG, AG
SUBJ: STATUS REPORT ON ALGERIAN LNG PROJECTS

REF: ALGIERS 2454

SUMMARY. ALGERIA HAS HAD A NUMBER OF PROBLEMS BUILDING THE GAS LIQUIFICATION PLANTS ESSENTIAL TO HER GAS EXPORT PROGRAM. THIS MESSAGE SUMMARIZES THE TECHNICAL PROBLEMS AND ESTIMATES COMPLETION DATES WHICH ARE ALL BEHIND SCHEDULE. END SUMMARY.

1. ALGERIA HAS CONTRACTED TO SELL SOME OF ITS THREE TRILLION CUBIC METERS OF PROVEN GAS RESERVES WHICH ARE MOSTLY FOUND IN ONE HUGE FIELD, HASSI-R'MEL.
OTHER GAS FIELDS ARE RHOURD-NOUSS AND ALRAR. THE GAS IS GATHERED IN THE FIELDS IN THE SOUTH. THERE IT IS
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TREATMENT PLANTS BUILD BY THE FRENCH (FIVE BILLION CUBIC METERS A YEAR) AND THE US (TEN BILLION CUBIC METERS A YEAR). THE CONDENSATE IS THEN SOLD SEPARATELY AND IS VERY VALUABLE AS A FEEDSTOCK. THE CLEANED GAS IS PIPED NORTH TO TWO LARGE LIQUIFICATION PORTS AT SKIKDA AND AT ARZEW WHERELIQUIFICATION PLANTS ARE BEING BUILT. THE GAS COULD BE REINJECTED BACK INTO THE FIELD, LESS THE VALUABLE CONDENSATE; BUT UNTIL NOW NO GAS REINJECTION FACILITIES HAVE BEEN BUILT. THE ONLY WAY OF RETRIEVING THE CONDENSATE OUT OF THE HASSI-R'MEL FIELD IS WITH THE GAS AND OBVIOUSLY BY RECYCLING THE GAS THROUGH THE FIELD MORE OF THE CONDENSATE CAN BE RECOVERED.

2. SKIKDA TRAINS 1, 2 AND 3 - TRAINS 2 AND 3 HAVE BEEN OPERATING WELL SINCE ABOUT AUGUST 14, 1974. COMBINED PRODUCTION IS ABOUT 100 PERCENT OF THEIR RATED CAPACITY. THEIR PRODUCTION OF ABOUT FOUR BILLION CUBIC METERS IS LESS THAN CONTRACTED GAS DELIVERIES TO GAZ DE FRANCE, BUT SHOULD STILL MEET FRENCH DEMAND. TRAIN NO. 1 WHICH HAD ALL THE TROUBLE IS STILL DOWN. PRESENT THINKING IS THAT COOLING AND UNCOOLING PRODUCED STEAM WHICH WITH MERCURY IN HASSI-R'MEL GAS AS A CATALYST CORRODED PIPES. IN FUTURE, TRAINS WILL BE KEPT COOL EVEN WHEN NOT PRODUCING LNG. TECHNIP AND SONATRACH ARE FLUSHING OUT TRAIN NO. 1 TO RID IT OF MERCURY. THE TIME NEEDED FOR THIS JOB IS UNKNOWN, BUT TRAIN NO. 1 IS NOT EXPECTED TO GO ON STREAM AGAIN UNTIL EARLY 1975. IT WILL THEN OPERATE AT ABOUT 85 PERCENT OF CAPACITY WHICH WILL THEN PROVIDE SOME CAPACITY AVAILABLE FOR SALES TO DISTRIGAS UNDER THEIR FIRST CONTRACT. TECHNIP, THE FRENCH BUILDER OF SKIKDA TRAINS 1-3 HAS ALTERED THE TUBING IN THE HEAT EXCHANGERS TO SLOW THE GAS FLOW WHICH HAS SOLVED THE VIBRATION PRO-BLEM. THE PARTS OF TRAIN 1 CORRODED BY MERCURY ARE UNDER CONSTRUCTION IN FRANCE, BUT DELIVERY WILL NOT BE UNTIL AUGUST 1975. TRAIN NO. 1 WILL THEN BE CLOSED AGAIN FOR THREE MONTHS FOR INSTALLATION OF THE REPLACEMENT PARTS.

3. SKIKDA 4 IS BEING BUILT BY PRITCHARD-RHODES. WORK HAS BEEN SLOWED BY TECHNICAL PROBLEMS AND RECENTLY LOCAL LABOR PROBLEMS. START-UP IS NOW BEING DISCUSSED FOR
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MARCH 1975, ABOUT SIX MONTHS BEHIND SCHEDULE. REALISTI-CALLY, TRAIN 4 MAY START PRODUCING LNG DURING THE SUMMER OF 1975. HOWEVER, PROBLEMS WHICH HAVE BESET THE START-UP OF CAMEL AND SKIKDA TRAINS 1-3 SHOULD BE EXPECTED. HOPEFULLY, THEY WILL NOT LAST TWO YEARS OR MORE AS THEY DID IN THE TWO EXAMPLES CITED. DUE TO DESIGN PROBLEMS, ACKNOWLEDGED BY PRITCHARD AND SONATRACH, THIS PLANT WILL ONLY OPERATE AT ABOUT 85 PERCENT OF CAPACITY. PRITCHARD

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DOES NOT BELIEVE ITS PLANTS SHOULD BE OPERATED WITH THE MERCURY LEVELS IN ALGERIAN GAS. PRITCHARD OFFICIALS BELIEVE A CRASH PROGRAM TO STUDY THE MERCURY PROBLEM SHOULD BE STARTED AND A MERCURY REMOVAL PLANT BUILT AT HASSI-R'MEL.

4. SKIKDA 5 AND 6 - CONTRACT HAS BEEN NEGOTIATED WITH PRITCHARD, ORDERS PLACED, GROUND BROKEN, BUT NO FURTHER WORK. PRITCHARD PLANS TO START CIVIL WORK EARLY 1975. COMPLETION OF TRAINS 5 AND 6 IS SCHEDULED TO TAKE PLACE IN 1977-78 BUT THE LATTER DATE IS MORE PROBABLE. THERE IS TALK OF THE NEED TO REFINANCE THIS PROJECT.

5. THE ABOVE PLANTS COMPLETE ALGERIAN LNG INVESTMENT FOR EASTERN ALGERIA AT PRESENT TIME. THE TWO GAS CLEANING AND CONDENSATE UNITS AT HASSI-R'MEL CAN TREAT THE QUANTITIES OF GAS NEEDED FOR CAMEL AND SKIKDA TRAINS 1-4. NEW CAPACITY MUST BE BUILT TO TREAT GAS FOR SKIKDA TRAINS 5 AND 6 AND FOR ARZEW TRAINS 1-24.

6.CAMEL - ORIGINAL LNG PLANT IN ALGERIA IS WORKING WELL AT OVER CAPACITY PRODUCTION FOR DELIVERIES OF LNG TO FRANCE AND ENGLAND. THE PLANT IS RUN BY THE ALGERIANS WITH FOUR TO FIVE TOP FOREIGN MANAGEMENT. ALGERIANS RE-USING IT FOR ON-THE-JOB TRAINING OF THEIR GAS STUDENTS.

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7. ARZEW I - (EL PASO I PROJECT FOR TRAINS 1-6)
CHEMICO IS BUILDING THIS PLANT AT A STEADY PACE. A WORK CHART SHOWS SOME AREAS OF CONSTRUCTION AHEAD OF SCHEDULE AND OTHERS BEHIND SCHEDULE. NO OVERALL PICTURE IS AVAILABLE EXCEPT THE BELIEF CHEMICO IS SOMEWHAT BEHIND SCHEDULE BUT NOT SERIOUSLY SO. A MEETING OF EL PASO, CHEMICO AND SONATRACH WILL TAKE PLACE THE WEEK OF DECEMBER 9 AT ARZEW TO REVIEW PROGRESS TO DATE.

8. WHATEVER IS CHEMICO'S CONSTRUCTION SCHEDULE, CHEMICO IS AHEAD OF THE SCHEDULE FOR BUILDING THE PORT FACILITIES AT ARZEW AND BUILDING THE NEEDED ADDITIONAL GAS TREATMENT CAPACITY AT HASSI-R'MEL. BOTH ARE ESSENTIAL TO THE OPERATION OF THE EL PASO PROJECT. PRITCHARD IS NEGOTIATING A CONTRACT TO BUILD A LARGE GAS TREATMENT AND CONDENSATE PLANT AT HASSI-R'MEL, BUT THE ORDERS ON SOME OF THE NECESSARY EQUIPMENT WILL LAPSE THIS MONTH WHICH WILL MEAN NEW DELAYS AND HIGHER COSTS. IT IS VERY DOUBTFUL THIS FACILITY WILL BE AVAILABLE UNTIL 1977
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AT THE EARLIEST. ADDITIONAL CLEANING, CONDENSATE AND REINJECTION UNITS ARE BEING NEGOTIATED WITH HUDSON AND CANBAN, BUT THESE ARE EVEN MORE ELABORATE PLANTS SO THEY WILL TAKE EVEN LONGER TO BUILD. PRESENT GAS CLEANING STATIONS CAN TREAT ABOUT FIFTEEN BILLION CUBIC METERS OF GAS A YEAR. ALGERIANS PROPOSE TO TREAT NINETEEN BILLION BY END OF 1977 AND NEED FACILITIES OF SIXTY BILLION CUBIC METERS OF GAS A YEAR TO MEET PLANNED EXPORT SALES. FOR MOST EFFICIENT USE OF HASSI-R'MEL, THERE SHOULD ALSO BE REINJECTION OF GAS INTO THE FIELD WHICH IN TURN ADDS TO AMOUNT OF CONDENSATE PRODUCES.

9. ARZEW II (EL PASO II PROJECT OR TRAINS 7-12), -
SONATRACH IS NEGOTIATING HARD WITH CHEMICO, PRITCHARD AND OTHERS ON THIS SUBJECT. THERE IS TALK OF REACHING AGREEMENT ON A CONSTRUCTION PRICE BEFORE THE END OF THE YEAR. CHEMICO SAYS ITS PRICE IS VERY NEAR 600 MILLION DOLLARS FOR THE ONE BILLION CUBIC METER LIQUIFACTION PLANT. SINCE, TO WHOM THIS GAS WOULD BE DELIVERED IS NOT CLEAR, IT IS DOUBTFUL PROGRESS WILL BE AS RAPID AS SONATRACH HOPES, SEE BELOW.

10. ARZEW III - (EUROGAS I OR TRAINS 13-21) THIS CONTRACT

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WAS SIGNED IN SEPTEMBER WITH MUCH FANFARE, BUT BEFORE
THE COMPLEX TIED FINANCING HAD BEEN COMPLETELY ARRANGED.
SINCE THEN, FIRST THE AUSTRIANS PULLED OUT OF THE PROJECT,
THEN TWO WEST GERMAN LEANDERS REFUSED TO GUARANTEE THE
NECESSARY LOANS UNLESS ALGERIA ALSO GUARANTEED THE
SELLING PRICE OF 42 CENTS PER MILLION BTU FOB ARZEW.
SONATRACH HAS REFUSED TO GUARANTEE THE PRICE, SO TWO OF
THE WEST GERMAN BUYERS HAVE ALSO THREATENED TO DROP OUT
OF THE EUROGAS CONSORTIUM.

11. PRESENT THINKING IN ALGIERS IS THAT THE EUROGAS I
PROJECT WILL HAVE TO BE TOTALLY RENEGOTIATED.THE NEW
PROJECT WILL BE SMALLER ABOUT ONE BILLION CUBIC METERS
WITH GAS BEING SOLD TO GAZ DE FRANCE, SWITZERLAND,
BELGIUM AND MAYBE THE NETHERLANDS. THE AUSTRIANS PROBABLY
WILL DROP OUT AND THE GERMANS WILL REGROUP WITH RUHR GAS
FOR A ONE BILLION CUBIC METER PROJECT.

12. RUHR GAS HAS BEEN PRESSING AHEAD WITH ITS NEGOTIA-
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TIONS AND MAY BE READY TO STEP INTO THE ARZEW II FACILITY
THAT HAS UP TO NOW BEEN CONSIDERED THE LIQUIFICATION PLANT FOR THE
EL PASO II CONTRACT.

13. THE RECENT LARGE PURCHASES OF GAS FROM RUSSIA WITH
FIXED CONTRACT PRICES HAVE BEEN NOTED WITH INTEREST IN
ALGERIA AND HAS SUBSTANTIALLY WEAKENED THE ALGERIANS'
STRONG BARGAINING POSITION FOR HIGHER GAS
PRICES OF THIS SUMMER.

14. US GAS PURCHASE NEGOTIATIONS HAVE BEEN CONTINUING,
BUT UNTIL THIS WEEK NO REAL PROGRESS COULD BE SEEN.
HOWEVER, IT IS NOW SAID THAT DISTRIGAS II IS READY TO
SIGN AGAIN A CONTRACT FOR ALGERIAN GAS.
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